



**REGULAR MEETING**  
**PUBLIC EMPLOYEES' RETIREMENT BOARD**

**MAY 4, 2006**

The regular meeting was called to order by President Carey at 8:30 a.m. Thursday, May 4, 2006. Roll call was taken with all members of the Board being present. Board members and staff present were:

Carole Carey, President  
Robert Griffith, Member  
Jay Klawon, Member  
Troy McGee, Member  
Elizabeth Nedrow, Member  
John Paull, Member  
Terry Smith, Member  
Roxanne Minnehan, Executive Director  
Melanie Symons, Counsel  
Linda Owen, Secretary

**OPEN MEETING**

Stephen C. Kologi, AMRPE; Tim Jones, Great-West Retirement Services; Jim Kembel, MPPA, MACOP, TIAA-CREF; Tom Schneider, MPEA; Janet Kelly, Department of Administration; Devin Garrity, Department of Administration-State Personnel Bureau; Rick Ryan, Chad Nicholson, Matt Norby, Scott Moore, Douglas H. Neil, and Jack Trethewey, members of the Montana State Firemen's Association; and Kim Flatow, Member Services Bureau Chief; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; Carolyn Miller, Administrative Officer; and Rob Virts, Training and Development Specialist, MPERA, joined the meeting.

*No public comment on any subject of interest to the Board not on the agenda.*

**MINUTES OF OPEN MEETING**

The minutes of the open meetings of March 30, March 31, and April 6, 2006 were presented. Mr. Griffith moved that the minutes of the previous open meetings be approved as amended. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye and Mr. Klawon abstaining from the March 30 minutes, six of the attending members voting aye for the March 31 and April 6 minutes, and Ms. Nedrow abstaining from all.

President Carey introduced Elizabeth (Beth) Nedrow, an attorney with Hollard & Hart from Billings, MT. Ms. Nedrow succeeds Betty Lou Kasten on the Public Employees' Retirement Board, and fulfills the qualifications for being a member at large. She serves a term ending April 1, 2011.

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The Executive Director took this opportunity for the staff to meet the Board members, and Kim Flatow introduced each staff member present, to the Board. On behalf of the Board, President Carey expressed to the staff how much the Board appreciates the jobs they do. They cannot thank staff enough for all of their hard work.

*No public comment on any subject of interest to the Board not on the agenda.*

## **EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Interim Executive Director**

**Election of Board Officers** – President Carey called for the nominations of new officers for the coming year, for the office of President and Vice President. Mr. McGee made a motion to nominate Jay Klawon for the office of President, and Carole Carey for the office of Vice President, of the Public Employees' Retirement Board. Mr. Klawon respectfully declined and Mr. McGee rescinded his motion.

Mr. McGee made a motion to nominate Carole Carey as continuing President, and John Paull for the office of Vice President, of the Public Employees' Retirement Board, to serve a term of one year concurrently. Nominations were closed. Mr. Griffith seconded the motion, which upon being submitted to vote, passed unanimously.

**Out of State Travel Authorization - NAPPA** – The Board was requested to authorize Melanie Symons to attend the National Association of Public Pension Attorneys' Executive Board Meeting in New York City, NY, June 27-30, 2006. Mr. Griffith made a motion to approve the NAPPA travel authorization for Ms. Symons. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Out of State Travel Authorization - NASRA** – The Board was requested to authorize staff and Board members to attend the National Association of State Retirement Administrators Conference (NASRA) in San Diego, CA, August 4-9, 2006. Mr. Klawon made a motion to approve the NASRA Conference travel request for Roxanne Minnehan and two Board members. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Interest Rate** – Based on interest rates earned on three- and six-month Treasury bills, one year Treasury notes, and short-term interest rate fluctuations, it was proposed increasing the current interest rate from 2.2% to 3.75% being credited to member accounts. Mr. Klawon made a motion to increase the interest rate credited to member accounts to 3.75% for the defined benefit plans, effective July 1, 2006. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Warm Springs Volunteer Fire Department** – The Warm Springs Volunteer Fire Department is requesting that the Board accept the Annual Certificates filed on August 18, 2005 for the fiscal years 2003 and 2004. The Annual Certificates were signed by the fire chief and notarized. Appropriate training documentation was not originally included. Training documentation for the years 2002, 2003, 2004 and 2005 was received in our office on August 18, 2005, along with a letter requesting that four members receive credit for an assortment of years between 2002 and 2005 (no entry dates given). It was later determined that we are only dealing with the years 2003 and 2004.

Barb Quinn pointed out that Warm Springs VFD has filed annual certificates in the past and now they are doing it again. If an entity files multiple times, the Board may not be as willing to give them credit. On behalf of Warm Springs, Ms. Quinn stated they have been willing to work through a lot of issues with this and have come through with the necessary training documentation.

Mr. Klawon moved that the Warm Springs Volunteer Fire Department is eligible to receive credit and the members should receive credit for years of service as listed on the annual certificates for the fiscal years 2003 and 2004. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**457 Stable Value Investment Guideline Modification and Companion Amendment to Investment Management Agreement** – PIMCO, the 457 Deferred Compensation Plan's stable value investment manager, has requested the ability to utilize emerging markets, on a limited basis. This would require a modification to the current Investment Guidelines.

PIMCO met with the Employee Investment Advisory Council (EIAC) at their April 6, 2006 meeting, via conference call, to discuss their proposed modifications. As a result, the EIAC recommends modifying the existing Investment Guidelines to allow PIMCO to utilize emerging markets – within parameters. At the request of EIAC, Bob Bugni, the Board of Investments representative and bond manager, reviewed the proposed emerging market investment vehicles. He indicated that both vehicles are diversified and performing well. He believes the proposed modifications are prudent and will allow PIMCO to further diversify the “below BBB-“ category.

The specific modifications are:

1. Page 2
  - a. add “Emerging Markets” to the allowed Transaction Types
  - b. add “Emerging Market Securities” to the Asset Types and Investment Vehicles
  - c. delete “Emerging Market Securities” to the Asset Types/Vehicles Explicitly Prohibited
2. Page 3
  - a. add “Emerging Markets (PIMCO Emerging Markets Fund and Developing Local market Fund Only).....5%
  - b. add “Combined Emerging Markets and” to Below BBB-....10%

These modifications allow PIMCO to invest in emerging markets only within two defined vehicles and limit the emerging market exposure to a maximum of 5% of the total portfolio. The rationale for allowing emerging markets, which had previously been prohibited, is that this change will allow PIMCO to garner the recent favorable, and expected to continue favorable, returns of emerging markets without significant risk. Aegon, the insurance wrap provider for the stable value investment option, is willing to allow the proposed modifications.

Mr. Klawon made a motion to modify the existing 457 Deferred Compensation Plan Stable Value Investment Guidelines as proposed by PIMCO to allow limited emerging market utilization. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Addendum to the Agreement – Ms. Symons explained that the investment guidelines are part of the contract with PIMCO. The addendum allows amendment to the underlying contract to change the investment guidelines, pursuant to Section 6 of the Agreement. Mr. McGee moved to amend the existing Investment Management Agreement between PIMCO and the Board to reflect the change in the Stable Value Investment Guidelines to permit limited investing in Emerging Market Securities. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**457 Adoption Agreement and Resolution – Town of Sheridan** – A new employee from the Town of Sheridan attended the PERS New Hire Workshop in Dillon in October 2005. The New Hire Workshops, conducted by MPERA staff, are followed by 457 Deferred Compensation Plan Workshops, conducted by Great West Retirement Services staff. Due to those workshops, the employee approached the Town of Sheridan and requested they look at the ability to offer the 457 Deferred Compensation Plan.

The Town of Sheridan contacted MPERA and requested information regarding the 457 Deferred Compensation Plan. Information was sent to the Town of Sheridan in November 2005, with tentative plans for Kathy Samson to present to the Town of Sheridan Town Council in December. Due to various scheduling conflicts, Ms. Samson was not able to present the information until February 2006. The Town of Sheridan's Town Council reviewed the required Resolution and Adoption Agreement and signed them at their April 10, 2006 meeting.

Mr. Klawon moved to accept and sign the Resolution and Adoption Agreement allowing the Town of Sheridan to join the State 457 Deferred Compensation Plan, effective July 1, 2006. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Future Board Meetings** – Thursday: August 10, September 14, October 12, November 9, and December 14, 2006.

The Board normally sets its meeting schedule on a quarterly basis. However, much of the Defined Contribution Plan RFP process is intertwined and will be influenced by the Board meeting schedule. The Board discussed scheduling their monthly meetings for the remainder of the calendar year in consideration of the RFP timeline.

Mr. Klawon made a motion to schedule the monthly board meetings for the remainder of the calendar year to the second Thursday of the month, to consider the defined contribution plans request for proposal (RFP) timeline, as follows: August 10, September 14, October 12, November 9, and December 14, 2006. Mr. Paull seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**FY 2006 Budget Update** – Roxanne Minnehan presented the third quarter budget update for FY 2006. The overall budget for all programs looks good at 63%. The budget is expected to be under 100% across all programs at fiscal year end.

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**Defined Contribution Plans Request for Proposal (RFP)** – The RFP for the DCRP and 457 Deferred Compensation Plan will be processed through the State Procurement Bureau, a division of the Department of Administration. Devin Garrity, Procurement Officer, was assigned to the RFP and will answer any questions Board members have about the process. The responsibility of an RFP committee will be developing drafts using EIAC recommendations, and evaluating the RFP. The RFP committee will read, individually, each written response and score them based upon established criteria. The committee score will determine the top scoring proposers who will be given the opportunity to present to the full Board. The full Board will be responsible for reviewing and commenting on RFP drafts and approving the final RFP.

It is of utmost importance that the RFP process be impartial and unbiased. Ms. Symons pointed out the RFP process is designed to keep the Board from being able to pick their favorite vendor. In order to keep with their fiduciary duties, the Board must follow that process. It is important for the Board to have representatives on the RFP committee that determine the scope of services, develop evaluation criteria, and set up the matrix for rating vendors. Mr. Garrity recommended reviewing the past RFP, pointing out the shortfalls, and then deciding how to overcome them on the current RFP.

Ms. Samson suggested that the RFP committee consist of two Board members, three EIAC members, and three MPERA staff. President Carey appointed Beth Nedrow and Terry Smith to the committee. The committee will consist of the following individuals:

<u>MPERA</u>	<u>EIAC</u>	<u>PERB</u>
Kathy Samson	Mary Spaulding	Beth Nedrow
Melanie Symons	Tom Bilodeau	Terry Smith
Rob Virts	Jim Christnacht	

The initial timeline has been expanded to cover the scope of work involved. It is hoped the RFP will be ready for posting in October 2006, and the final vendor selected by January 1, 2007. This would give six months to write, sign and implement the contract before the current contract expires June 30, 2007.

**NAGDCA Annual Conference** – The National Association of Government Defined Contribution Administrators Conference (NAGDCA) will be in Kansas City, MO, September 23-27, 2006. The Board can decide at a later date who would like to attend. The Board needs to be cognizant of the RFP process and that vendors will be approaching them. Ms. Symons will prepare a response for Board members and staff to use when approached by vendors. Ms. Symons pointed out it is the perception of impropriety, as well as the reality.

**GFOA Certificate of Achievement** – The FY 2005 Comprehensive Annual Financial Report (CAFR) has received the Government Finance Officers' Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the eighth consecutive year.

**Board Committees** – According to Board policy, Board committees should be reviewed annually to assess the need for the committee, rotate membership, and appoint replacement members and committee chairs based on member interest and strengths. President Carey will review the make-up of these committees for next month. Board members are to let her know where their interests lie. Current committee members are as follows:

Personnel Committee – President Carey, Mr. McGee and Mr. Griffith  
Negotiations Committee – Vice President Paull, Mr. McGee and Mr. Klawon  
Legislation Committee - Vice President Paull and Mr. Griffith  
Education Committee - Vice President Paull and Mr. Smith  
Tri-Partite Board Representative – President Carey and Vice President Paull  
RFP Committee – Ms. Nedrow and Mr. Smith

**Board Member Orientation** – New Board members receive an overwhelming amount of information at their first meeting. Ms. Minnehan will schedule a formal orientation meeting for Mr. Smith and Ms. Nedrow close to the next Board meeting on June 1, 2006.

**Joint Issue Committee Meeting Update** – The Joint Issues Committee will be meeting May 18, 2006, from noon to 5:00 p.m. the same day as the next Board of Investment's (BOI) meeting, to do the Teachers' Asset Liability Study. MPER Board members are welcome to attend. The PERS Asset Liability Study will be done next.

**SAVA Meeting Update** – Ms. Minnehan reported that the SAVA committee met on April 21, 2006. Senator Tash, who was the previous Chair of that committee, withdrew from the committee for personal medical reasons. He will be replaced by Kelly Gebhardt. The newly elected Chair is Senator Tropila and Vice Chair is Representative Heinert.

The main focus of the meeting was to examine previous principles, guidelines and policies the CPERS committee used when reviewing retirement legislation. Dave Bohyer gave a PowerPoint presentation, and Ms. Minnehan, Dave Senn, Carroll South, Randy Morris, Tom Schneider and Tom Bilodeau addressed the committee to comment on public pension policy principles and guidelines.

Ms. Minnehan noted there were many questions regarding if the state were to transition from the current Defined Benefit Retirement Plans to a system in which all future employees new to the systems would become members of an existing or new PERS Defined Contribution Plan. The committee wanted to know what the effects/burden would be on the employers for actuarial soundness, since one of the principles was equity across all systems. Ms. Minnehan received a letter formally requesting this information and the committee would like to have the information available prior to the SAVA meeting scheduled June 22, 2006 meeting, if possible. President Carey will send a letter to the SAVA committee advising them the Board's Consulting Actuary will be contacted to find out the cost of obtaining this information, but that the Board is concerned about what that cost might be. However, the deadline for the May meeting agenda items had passed and the Board could not make a decision at this meeting regarding the request because of the open meeting law.

The next SAVA committee meeting is May 12, 2006.

**Board of Investments Update** – Mr. Paull gave a brief update.

The Real Estate Investment Pool, which was officially created on April 26, 2006, is a new asset class within the pension portfolios. Participation will be limited to the nine pension plans.

R.V. Kuhns is giving consideration to a new benchmark, the Morgan Stanley benchmark. Instead of the benchmark being regionally focused, new mandates will be according to the style or strategy in market capitalization. The new benchmark would allow for more latitude across managers and more opportunities for diversification.

An RFP for an Enhanced Equity Manager was issued on March 3, 2006 and closed on March 28, 2006. There were 46 responses to the RFP and phone interviews were conducted with six finalists. Four firms were selected as managers: T. Rowe Price, Intec, Goldman Sachs and Western Asset Management. \$500 million of the MontComp funds will be divided equally among the four firms.

**Litigation Update** – Ms. Symons advised the Board that the Baumgardner case, regarding impairment of contract, will go to trial in the Supreme Court in October 2006.

**Montana State Firemen's Association** – On behalf of the MSFA, Rick Ryan invited the Board and staff to their Annual Firefighters' Convention at the Great Northern Hotel in Helena, July 12-14, 2006. Historically, the Executive Director has attended the convention to speak about issues pertaining to the Fighters' Unified Retirement System (FURS).

**Operational Summary Report** - The Executive Director presented operational summary reports for the month of March 2006, answering any questions Board members had.

**The following portion of the meeting relates to matters of individual privacy. President Carey determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.**

**CLOSED MEETING**

**MINUTES OF CLOSED MEETING**

The Executive Director presented the minutes of the closed meeting of March 30, 2006. Mr. McGee moved that the minutes of the previous closed meeting be approved. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye, and Ms. Nedrow and Mr. Klawon abstaining because they were not in attendance.

**RETIREMENT REPORT** – Kim Flatow, Member Services Bureau Chief

**Disability Claims** – Ms. Flatow presented the disability claims for Board consideration. After discussion of the claims, Mr. Paull made a motion for approval of the disability claims as recommended for Frank Malek, with annual review; for Theresa Price, without annual review; for a duty-related disability for Corine Owen-Meder and Dawn Stirling, without annual review; and denying the claim for David Watson. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Disability Reviews** - Ms. Flatow presented the disability reviews to the Board. After discussion of the reviews, Mr. Paull made a motion to approve the disability reviews as recommended: to recommend an IME at Board expense for Lorraine Houppert and Rorrie Toren. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Finalized Service/Disability Retirement Benefits and Monthly Survivorship/Death Benefits** - Applications for service retirements/finalized disability benefits and applications for monthly survivorship-death benefits were presented to the Board. Mr. Griffith made a motion to approve the retirement benefits as presented. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

## **CONTESTED CASES**

**Darlene Schultz – Informal Consideration** – Ms. Schulz was employed by the Montana State Prison. She was terminated and as a result of the grievance process, was reinstated to her position and received back pay. She is requesting service credit for the period of termination.

Mr. Klawon moved that the Board grant 3.58 months of service credit to Darlene Schulz for July 2005 through January 2006. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Henry Chapman – Informal Consideration** – Mr. Chapman was employed as a reserve officer with the city of Billings. He previously requested the cost to purchase the reserve service and was provided cost statements. Upon receipt of a new request, it was determined he was ineligible to purchase this service. Mr. Chapman is requesting the right to purchase the service.

Ms. Nedrow made a motion that Mr. Chapman is ineligible to purchase his reserve service and this request is denied. Uphold the staff determination. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Mr. Griffith made a motion to have staff check past records and see if any other individuals can be identified who were allowed to purchase their reserve service and this needs to be corrected. Mr. Smith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**City of Bozeman – 125 Plan – Informal Consideration** – Ms. Symons explained that Mary Beth Braitman and Terry Mumford of Ice Miller LLP, the Board's tax counsel, filed a Voluntary Correction program (VCP) request with the IRS on September 7, 2005. The proposed correction addresses the city of Bozeman's improper treatment of the city's health insurance contributions as compensation for retirement purposes only. We have asked for a prospective correction because our members had no control over the incorrect reporting of compensation by their employer. The incorrect reporting has been on-going for 10 years. Retroactive correction would result in a substantial decrease in retirement benefits through no fault of the retirees.



Louis Leslie, the VCP Coordinator, contacted Ice Miller regarding why we are proposing a prospective correction only. As part of that discussion, Mr. Leslie asked if any of the affected city of Bozeman retirees were “highly compensated employees” (HCE’s). HCE’s cause problems when a plan discriminates in favor of its HCE’s.

One retiree, Miral Gamradt, is a HCE. Mr. Gamradt was the city manager who proposed using the city’s health insurance contributions as compensation for retirement purposes. Several current employees are also HCE’s, including the new city manager. Ice Miller was concerned to learn that Mr. Gamradt was an HCE. They believe there is a good chance the IRS will now require retroactive correction.

Ice Miller would like to take a proactive response to the IRS with some recommendations. Ms. Symons was asked to research Montana law to see if one HCE could be treated differently from other HCE’s. She felt as long as the Board has a rational reason for treating HCE’s differently, it would be permissible. Ice Miller will work with the IRS to reach an acceptable resolution, rather than the IRS dictating what will happen. Ice Miller will propose an amended correction to the IRS--retroactive correction with respect to HCE’s; prospective correction with respect to all other retirement system members.

Ms. Nedrow made a motion to follow a “wait and see” approach and see what the IRS responds with. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with six of the attending members voting aye, and Mr. Griffith voting nay.

## **EXECUTIVE SESSION**

**The meeting went into executive session to conduct the Legal Counsel’s Performance Appraisal.**

## **ADJOURNMENT**

There being no further business to come before the Board at this date, President Carey adjourned the meeting. The next meeting is tentatively scheduled for Thursday, June 1, 2006, at 8:30 a.m. in Helena.